

Message Text

LIMITED OFFICIAL USE

PAGE 01 NICOSI 01308 01 OF 03 191609Z POSS DUPE
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
AID-05 EB-08 TRSE-00 STR-07 OMB-01 CEA-01 COME-00
FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 ACDA-12
AGRE-00 /126 W
-----043466 201036Z /10

R 191530Z MAY 78
FM AMEMBASSY NICOSIA
TO SECSTATE WASHDC 7786
INFO AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL
AMEMBASSY COPENHAGEN
AMEMBASSY LONDON
AMEMBASSY PARIS
USNMR SHAPE BEL
USCINCEUR VAIHINGEN GER
USDOCOSOUTH NAPLES IT
USMISSION USNATO
USMISSION USUN NEW YORK
DIA WASHDC

LIMITED OFFICIAL USE SECTION 1 OF 3 NICOSIA 1308

BRUSSELS FOR USEEC
USCINCEUR FOR POLAD
USDOCOSOUTH FOR POLAD

E.O. 11652: N/A
TAGS: PGOV, ETRD, EGEN, EALR, CY
SUBJECT: UPDATE TURKISH CYPRIOT ECONOMY

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 NICOSI 01308 01 OF 03 191609Z POSS DUPE

REF: (A) 77 NICOSIA 2417, (B) NICOSIA A-53, DEC 1977
(C) NICOSIA A-47, NOV 22, 1977 (D) 77 NICOSIA 2709

1. LITTLE HAS CHANGED SINCE OUR LAST REVIEW OF THE TURKISH
CYPRIOT ECONOMY (REF. A). THOUGH THE ECONOMY HAS STABILIZED,
IT SHOWS FEW SIGNS OF IMPROVEMENT. IT REMAINS PLAGUED BY
RAMPANT INFLATION, EXCESSIVE AND INEFFECTUAL BUREAUCRACY

AND THE STIFLING EFFECTS OF ITS HISTORIC ISOLATION AND RETARDATION. WITHOUT POLITICAL SETTLEMENT AND LIFTING OF THE GOC ECONOMIC AND POLITICAL BOYCOTT, THE TURKISH CYPRIOT ECONOMY WILL CONTINUE TO STAGNATE AND DEPENDENCE ON TURKEY WILL GROW.

2. EVEN THOUGH TFSC AUTHORITIES ARE NOW RELEASING A CONSIDERABLE AMOUNT OF ECONOMIC DATA, THERE ARE NUMEROUS INCONSISTENCIES BETWEEN FIGURES PUBLISHED BY DIFFERENT MINISTERIES AND THOSE OF THE STATE PLANNING OFFICE (SPO). FOR EXAMPLE, MINISTRY OF FINANCE (MINFIN) ESTIMATES GNP REACHED CYPRUS POUNDS 64.6 MILLION IN 1976 AND GREW BY 22.7 PERCENT IN 1977 TO CP79.3. IT PREDICTS GNP IN 1978 WILL REACH CP82.1 MILLION OR AN INCREASE OF 3.5 PERCENT. USAID "UPDATE ON ECONOMY" OF NOVEMBER 1977, BASED ON INFORMATION SUPPLIED BY TURKISH CYPRIOT STATE PLANNING OFFICE (SPO), PROJECTED CONSIDERABLY LOWER FIGURES, I.E. CP58.5 MILLION FOR 1977 AND CP72.9 IN 1978. PER CAPITAL INCOME FIGURES CAN NOT BE CALCULATED ON BASIS THESE CONFLICTING FIGURES AND ALSO BECAUSE POPULATION ESTIMATES RANGE BETWEEN 120,000 TO OVER 150,000 PERSONS. COMMENT: AS ROUGHT ESTIMATE, EMBASSY BELIEVES PCI TO BE HALF THAT OF THE GREEK CYPRIOTS WHICH WAS ESTIMATED AT \$2059 IN 1977.

3. EVEN IF ONE ACCEPTS MINFIN FIGURES, GNP GROWTH FAILED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 NICOSI 01308 01 OF 03 191609Z POSS DUPE

TO KEEP UP WITH INFLATION WHICH, ACCORDING TO TFSC AUTHORITIES, EXCEEDED 38 PERCENT IN 1976 AND 31 PERCENT IN 1977. TFSC ADMINISTRATION IS COMMITTED TO FIGHTING INFLATION BUT THERE IS LITTLE IT CAN DO. WITHOUT A CENTRAL BANKING FACILITY THERE IS NO CONTROL OVER THE MONEY SUPPLY. FURTHER THERE IS INSUFFICIENT DOMESTIC INDUSTRIAL PRODUCTION TO MEET LOCAL DEMANDS, NO PROPER PRICE-CONTROL MECHANISM, WIDESPREAD SPECULATION BY MERCHANTS, HIGH PUBLIC EXPENDITURE, SHORTAGE OF FOREIGN EXCHANGE AND FINALLY INFLATION AND CURRENCY DEVALUATION IMPORTED FROM TFSC'S MAIN TRADING PARTNER TURKEY.

4. SEVERE LACK OF FOREIGN EXCHANGE IS CONSIDERED BY TFSC PLANNERS TO "CONSTITUTE ONE OF THE BIGGEST PROBLEMS FACING THE ECONOMY". IT HAS LED TO THE "IMPORT WITH WAIVER" SCHEME (BEDELSIZ ITHALAT) WHICH PERMITS MERCHANTS TO IMPORT GOODS WITH FOREIGN EXCHANGE OBTAINED FROM NONGOVERNMENTAL SOURCES. BECAUSE OF HIGHER RATES PAID ON OPEN MARKET FOR FOREIGN CURRENCY, GOODS IMPORTED BY THIS METHOD ARE MARKED AT CONSIDERABLE PREMIUM. MINFIN OFFICIALS ESTIMATE THAT IN 1977 ALMOST 80 PERCENT OF

ALL IMPORTS WERE MADE WITH WIAVER OR CAME FROM TURKEY.
THE INFLATIONARY CONSEQUENCES WERE SUBSTANTIAL.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 NICOSI 01308 02 OF 03 191624Z POSS DUPE
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
AID-05 EB-08 TRSE-00 STR-07 OMB-01 CEA-01 COME-00
FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 ACDA-12
AGRE-00 /126 W

-----043729 201038Z /10

R 191530Z MAY 78
FM AMEMBASSY NICOSIA
TO SECSTATE WASHDC 7787
INFO AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL
AMEMBASSY COPENHAGEN
AMEMBASSY LONDON
AMEMBASSY PARIS
USNMR SHAPE BEL
USCINCEUR VAIHINGEN GER
USDOCOSOUTH NAPLES IT
USMISSION USNATO
USMISSION USUN NEW YORK
DIA WASHDC

LIMITED OFFICIAL USE SECTION 2 OF 3 NICOSIA 1308

BRUSSELS FOR USEEC
USCINCEUR FOR POLAD
USDOCOSOUTH FOR POLAD

5. IN MEMO TO EEC IN NOVEMBER 1977, MINFIN STATED THAT
INDUSTRY IS ONLY UTILIZING 25 PERCENT OF CAPACITY AND ACCOUNTS
FOR ONLY 11 PERCENT OF GNP. EVEN THOUGH ALMOST 60 PERCENT
OF PRIVATE INVESTMENT IN 1977, SOME CP2.1 MILLION WENT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 NICOSI 01308 02 OF 03 191624Z POSS DUPE

INTO INDUSTRY, ONLY 1 PERCENT OF PUBLIC EXPENDITURE WAS SO EARMARKED. 50 PERCENT OF PUBLIC EXPENDITURE, AMOUNTING TO ALMOST 30 PERCENT OF GNP WENT INTO PUBLIC SERVICES (INCLUDING SOCIAL SECURITY AND OTHER TRANSFER PAYMENTS). CIVIL SERVICE, WHICH INCLUDES TEACHERS, NUMBERED 8428 IN 1977 AND THEIR SALARIES ACCOUNTED FOR 37 PERCENT OF THE ANNUAL BUDGET.

6. TOURISM IS ONE SECTOR OF THE ECONOMY WHICH IS GROWING BUT EVEN IT FACES PROBLEMS. HOTEL OCCUPANCY AVERAGES 30 TO 40 PERCENT, BUT IS NEAR CAPACITY DURING SEASONAL INFLEXES. HOWEVER, 95 PERCENT OF TOURISTS ARE FROM TURKEY, THUS THE CONTRIBUTION TO FOREIGN EXCHANGE RESERVES HAS BEEN MINIMAL. IN 1977 THE NUMBER OF FOREIGN VISITORS SHOWED A SURPRISING DECLINE FROM 1975/76. TOURISM FROM TURKEY ITSELF MAY DECLINE DURING 1978 AS RESULT OF RESTRICTIONS GOT HAS PLACED ON THE NUMBER OF TRIPS ITS CITIZENS CAN TAKE ABORAD (INCLUDING TFSC) EACH YEAR AND THE AMOUNT OF MONEY THEY WILL BE ABLE TO SPEND. TFSC AUTHORITIES BLAME LACK OF TOURIST DEVELOPMENT TO GOC INSPIRED EMBARGO ON USE OF ERCAN AIRPORT, AND INEXPERIENCE IN INTERNATIONAL MARKETING.

7. TFSC AUTHORITIES RECOGNIZE THAT PROBLEMS IN INDUSTRY AND TOURISM ARE EXACERBATED BY MINIMAL LEVEL OF ENTERPRENEURIAL AND MANAGERIAL SKILLS. EFFORTS ARE BEING MADE AT HOTEL CATERING INSTITUTE IN FAMAGUSTA AND THROUGH MORE BUSINESS STUDIES SHCOLARSHIPS IN UK AND TURKEY TO IMPROVE SITUATION BUT PROGRESS HAS BEEN SLOW.

8. THERE ARE NONETHELESS SOME HOPEFUL SIGNS. AGRICULTURE, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 NICOSI 01308 02 OF 03 191624Z POSS DUPE

WHICH ACCOUNTS FOR ALMOST 80 PERCENT OF GNP, CONTINUES TO EXPAND. EXPORTS OF CITRUS, PRIMARILY TO THE UK, HAVE INCREASED 28 PERCENT DURING THE 1977/78 SALES SEASON AS OPPOSED TO SAME PERIOD OF 1976/77. FOREIGN EXCHANGE EARNINGS FROM CITRUS IN 1977/78 SHOULD REACH CP7 MILLION. ALSO LOCAL PRODUCTION OF LIVESTOCK, POULTRY, MEAT AND EGGS NOW SATISFY LOCAL DEMAND. (EXPORT OF THESE PRODUCTS TO TURKEY OCCASIONALLY RESULTS IN LOCAL SHORTAGES AND PRESS HAS BEEN HIGHLY CRITICAL OF ADMINISTRATION'S INEPT MANAGEMENT OF EXPORTS). EXTERNAL COMMUNICATIONS HAVE IMPROVED AND A MICROWAVE TELECOMMUNICATIONS LINK WITH EUROPE IS SCHEDULED TO OPEN SOON. IN ADDITION,

THE NUMBER OF FOREIGN SHIPS CALLING IN FAMAGUSTA HAS INCREASED SIGNIFICANTLY. THIS REFLECTS GROWING DIVERSIFICATION OF MARKETS FOR TURKISH CYPRIOT PRODUCE. TURKEY FOR EXAMPLE ACCOUNTED FOR 77 PERCENT OF TFSC IMPORTS IN 1975, BUT THIS SHARE HAS FALLEN TO 40 PERCENT BY 1977. EXPORTS HAVE ALSO SHIFTED AND TURKEY'S SHARE HAS DROPPED FROM 45 PERCENT IN 1975 TO 28 PERCENT IN 1977. THE NETHERLANDS AND ITALY HAVE JOINED THE UK AS MAJOR CUSTOMERS FOR TURKISH CYPRIOT PRODUCE.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 NICOSI 01308 03 OF 03 201010Z

ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 PM-05 H-01 INR-10

L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11

AID-05 EB-08 TRSE-00 STR-07 OMB-01 CEA-01 COME-00

FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 ACDA-12

AGRE-00 /126 W

-----058675 201035Z /10

R 191530Z MAY 78

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 7788

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMCONSUL ISTANBUL

AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY PARIS

USNMR SHAPE BEL

USCINCEUR VAIHINGEN GER

USDOCOSOUTH NAPLES IT

USMISSION USNATO

USMISSION USUN NEW YORK

DIA WASHDC

LIMITED OFFICIAL USE SECTION 3 OF 3 NICOSIA 1308

BRUSSELS FOR USEEC

USCINCEUR FOR POLAD

USDOCOSOUTH FOR POLAD

9. COMMENT. BEGIN LIMITED OFFICIAL USE. THIS LIMITED DIVERSIFICATION SHOULD NOT HOWEVER BE OVERSTATED. TFSC ECONOMY REMAINS WHOLLY DEPENDENT ON TURKEY. GOT PROVIDED FINANCIAL ASSISTANCE AMOUNTING TO APPROXIMATELY 50 PERCENT OF LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 NICOSI 01308 03 OF 03 201010Z

TFSC BUDGET. THERE ARE MAINLAND ADVISORS IN MOST MINISTRIES (WHOSE AUTHORITY IN SOME CASES EXCEEDS THAT OF SENIOR TFSC OFFICIALS). IN ADDITION TFSC HAS BEEN FORCED TO ADOPT REGULATIONS RESTRICTING GOODS WHICH ARE IMPORTED FROM OUTSIDE TURKEY.

10. WHAT THEN DOES THE FUTURE HOLD FOR THE TFSC ECONOMY? PROBABLY MORE OF THE SAME, UNLESS THE CYPRIOT ADMINISTRATION'S NEW ECONOMIC RE-VITALIZATION PLAN IS MORE SUCCESSFUL THAN THOSE OF HIS PREDECESSORS. THE PROGRAM IS AIMED AT STIMULATING DOMESTIC AND FOREIGN INVESTMENTS IN ORDER TO INCREASE INDUSTRIAL PRODUCTION. IT ALSO PLANS TO DEAL WITH THE MONEY SUPPLY PROBLEM. TFSC OFFICIALS GENERALLY AGREE THAT THIS CAN ONLY BE DONE THROUGH THE CREATION OF SOME FORM OF CENTRAL BANKING AUTHORITY IN ORDER TO CONTROL THE APPLICATION AND USE OF LIMITED AVAILABLE FOREIGN EXCHANGE AS WELL AS AMOUNT OF TURKISH LIRA IN CIRCULATION. A FIRST STEP WAS TAKEN IN THIS DIRECTION WITH THE ANNOUNCEMENT THAT PERMISSION FOR USE OF "IMPORT WITH WAIVER" METHOD WILL NOT BE AS FREELY GRANTED FOR CONSUMER ITEMS.

11. WHILE WE CONSIDER THESE STEPS IN THE RIGHT DIRECTION, TFSC AUTHORITIES MUST FIND THE POLITICAL WILL TO RESIST UNAFFORDABLE WAGE DEMANDS WHICH HAVE RESULTED IN A SERIES OF STRIKES BY THE CIVIL SERVICE, POSTAL WORKERS, AND STATE PRINTERS AS WELL AS BY WORKERS IN NUMEROUS INDUSTRIES OVER PAST YEAR. EVEN IF THIS CAN BE DONE, WE DOUBT, HOWEVER, THAT IT WILL BE POSSIBLE FOR THE TFSC ECONOMY TO PROGRESS IN A MEANINGFUL FASHION UNTIL SOME FORM OF POLITICAL ACCOMMODATION WITH THE GREEK CYPRIOTS IS REACHED. PREFERABLY FOR THE TURKISH CYPRIOTS A SETTLEMENT WOULD PERMIT ECONOMIC INTERACTION BETWEEN THE TWO COMMUNITIES

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 NICOSI 01308 03 OF 03 201010Z

(WHILE PROVIDING PROTECTION FOR TURKISH CYPRIOT BUSINESS), ALLOW DEVELOPMENT AID TO BE CHANNELLED TO THE TURKISH CYPRIOT ECONOMY AND PROVIDE TURKISH CYPRIOTS ACCESS TO INTERNATIONAL MONEY MARKETS.

STONE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL TRENDS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978NICOSI01308
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780212-1066
Format: TEL
From: NICOSIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780540/aaaabhlu.tel
Line Count: 332
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e23d8c9a-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 NICOSIA 2417, 78 NICOSIA A-53, 78 NICOSIA A-47
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2638048
Secure: OPEN
Status: NATIVE
Subject: UPDATE TURKISH CYPRIOT ECONOMY LIMITED OFFICIAL USE LIMITED OFFICIAL USE
TAGS: PGOV, ETRD, EGEN, EALR, CY
To: STATE USEEC
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e23d8c9a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014